BILL ANALYSIS

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Department, Board, Or Commission	Author	Bill Number
Franchise Tax Board	**Wolk, et al.**	**SB 1272**

SUBJECT

Tax Expenditures/Add 7 Year Sunset

SUMMARY

This bill would create certain requirements for bills introduced on or after January 1, 2011, that would create a new tax credit.

PURPOSE OF BILL

According to the language of this bill, it is the Legislature's intent to provide a standard method for the Legislature to evaluate tax credits periodically to ensure that these expenditures are providing the most benefit to the State and its taxpayers.

EFFECTIVE/OPERATIVE DATE

Assuming enactment on or before September 30, 2010, this bill would become effective on January 1, 2011, and specifically operative for any bill introduced on or after January 1, 2011, that would create a new tax credit.

ANALYSIS

FEDERAL/STATE LAW

Existing state and federal laws provide various tax credits and other tax benefits designed to provide tax relief for taxpayers who incur certain expenses (e.g., child adoption) or to influence behavior, including business practices and decisions (e.g., research credits or economic development area hiring credits). These benefits generally are designed to provide incentives for taxpayers to perform various actions or activities that they may not otherwise undertake. Existing federal and State law are silent with regard to requiring tax credit bills to include specific goals, purposes, and objectives, performance measures, or a sunset date.

THIS BILL

This bill would require bills introduced on or after January 1, 2011, that would create a new tax credit, to contain language that would specify:

- The specific goals, purposes, and objectives the new tax credit will achieve (e.g., a jobs credit that would provide an incentive for a company to hire a certain demographic),

- Detailed performance indicators for the Legislature to use to measure whether the tax credit meets the goals, purposes, and objectives in the bill. For example, in the case of a jobs credit bill, performance measures could include the increase in the number of jobs available, or the number of individuals that would be targeted for employment,
- Data collection and reporting requirements that would allow the Legislature to evaluate whether the credit is meeting, failing to meet, or exceeding its goals, purposes, and objectives, including baseline data, to be collected and remitted in each year the credit is effective for the Legislature to measure the change in performance indicators, and the specific taxpayers, state agencies, or other entities required to collect and remit data, and
- The credit would cease to be operative seven taxable years after its effective date and would be repealed as of January 1 of the year following the end of the operative period.

LEGISLATIVE HISTORY

AB 2171 (Calderon, 2009/2010), would have conditioned the allowance of a tax benefit on the passage of a separate statute. AB 2171 failed to pass out of the Assembly Committee on Appropriations.

AB 2641 (Arambula and Solorio, 2009/2010), would have required the Legislature to review, before January 1, 2014, and every fifth year thereafter, each tax expenditure, as specified, and would have provided that every new tax expenditure that is enacted after the effective date of AB 2641 shall be repealed automatically on January 1, 2015, and on January 1 of every fifth year thereafter, unless a later statute provides otherwise. AB 2641 failed to pass out of the Assembly Committee on Appropriations.

ACA 6 (Calderon 2009/2010) would amend the State's constitution to, among other things, limit the operative period to seven years from the date of the enactment of a new or amended tax credit. ACA 6 is scheduled to be read on August 26, 2010, for the third time on the Assembly floor.

AB 831 (Parra, 2007/2008) would have required any legislative measure creating a new tax expenditure or extending the operation of an existing tax expenditure to include a repeal of the expenditure in a manner that reflects the needs and conditions of the proposed expenditure. This bill failed to pass out of the Senate Revenue and Taxation Committee.

OTHER STATES' INFORMATION

The states surveyed include *Florida, Illinois, Massachusetts, Michigan, Minnesota,* and *New York.* These states were selected due to their similarities to California's economy, business entity types, and tax laws.

Review of these states' laws found no comparable limitation to the one proposed by this bill.

FISCAL IMPACT

Because this bill would add requirements for future bills, no departmental costs are associated with this bill.

ECONOMIC IMPACT

This bill would not impact the state's income tax revenue.

Appointments

None.

Support/Opposition

Support: California Labor Federation (sponsor)
The American Federation of State, County and Municipal Employees, (AFSCME), AFL-CIO
California Federation of Teachers
California Nurses Association
State Building and Construction Trades Council of California, AFL-CIO
Western Center on Law and Poverty

Opposition: BIOCOM
California Aerospace Technology Association
California Bankers Association
California Business Properties Association
California Chamber of Commerce
California Manufacturers and Technology Association
California Retailers Association
California Taxpayers' Association
TechAmerica

VOTES

Assembly Floor – Ayes: 47, Noes: 27
Senate Floor – Ayes: 21, Noes: 15
Concurrence – Ayes: 22, Noes: 12

LEGISLATIVE STAFF CONTACT

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